

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6942

BILL NUMBER: HB 1358

NOTE PREPARED: Jan 16, 2012

BILL AMENDED:

SUBJECT: Taxation of Civil Service Annuities.

FIRST AUTHOR: Rep. Clere

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill increases the maximum state income tax deduction for federal civil service annuity income from \$2,000 to \$5,000 and provides that the deduction is also available to a surviving spouse.

Effective Date: January 1, 2012 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the deduction for civil service annuities. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary* - The bill does the following: (1) increases the deduction for federal civil service annuity pay from \$2,000 to \$5,000 beginning in tax year 2012; and (2) provides that the \$5,000 deduction also applies to a surviving spouse. It is estimated that the revenue loss from the deduction changes could potentially total about \$643,000 (about \$515,000 attributable to retirees and \$128,000 attributable to surviving spouses). Since the deduction change starts in tax year 2012, the revenue loss would commence in FY 2013. The revenue could remain relatively flat or grow by as much as 2.7% annually thereafter.

Background Information - Under current statute, taxpayers may deduct up to \$2,000 in civil service annuity income. The deduction is equal to the difference between \$2,000 and the total amount of Social Security or railroad benefits received by the taxpayer. In 2009, 4,237 taxpayers deducted approximately \$7.3 M in civil service annuity pay from their AGI. This amount resulted in a revenue loss of about \$248,000. Based on the

current deduction limits and recent annual growth in the deduction, the revenue loss for FY 2013 is estimated to range from \$248,000 to \$269,000.

Data from the U.S. Office of Personnel Management indicates that there were about 26,000 federal retirees and about 8,000 surviving spouses of federal retirees residing in Indiana. The federal retirees received about \$707 M in annuity payments and surviving spouses received about \$118.5 M in annuity payments during 2010. The average payment to a federal retiree was about \$27,500 and the average for surviving spouses was about \$15,000. The total payments to retirees and their spouses in Indiana increased, on average, 4% over the past 10 years.

The estimate relating to civil service annuitants assumes those currently claiming the \$2,000 deduction (4,237 taxpayers) will be able to claim the additional \$3,000 deduction. It also assumes that an additional 1,500 civil service annuitants will be able to claim part or all of the additional \$3,000 deduction. The estimate relating to surviving spouses assumes that survivor's benefits and social security payments to these individuals are distributed similar to civil service annuitants.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the civil service retirement deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a minimal decrease in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U. S. Social Security Administration, *Social Security Online - Beneficiary Databases*, <http://www.ssa.gov/OACT/ProgData/beniesQuery.html>. OFMA Income Tax Databases, 1996-2009; Data on Federal Civil Service Annuitants in Indiana, U.S. Office of Personnel Management.

Fiscal Analyst: Jim Landers, 317-232-9869.